

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Financial Statements, Supplementary Information, and
Management's Discussion and Analysis

June 30, 2004

(With Independent Auditors' Reports Thereon)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home

(Project No. VA39-H027-017)

June 30, 2004

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KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Board of Supervisors
County of Fairfax, Virginia

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Section 8 – New Construction – Group Home, Project No. VA39-H027-017 (the Project), as of and for the year ended June 30, 2004, as listed in the accompanying table of contents. These financial statements are the responsibility of the Project's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements of the Project are intended to present the financial position, and changes in financial position and cash flows, of only the Project. They do not purport to, and do not, present fairly the financial position of the Fairfax County Redevelopment and Housing Authority as of June 30, 2004, and the changes in its financial position and its cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements of the Project referred to above present fairly, in all material respects, the financial position of the Project at June 30, 2004, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 6 is not a required part of the Project's financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the



required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the Project's financial statements taken as a whole. The supplementary information on pages 15 through 19 is presented for purposes of additional analysis and is not a required part of the Project's financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the Project's financial statements and, in our opinion, is fairly stated in all material respects in relation to the Project's financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 27, 2004 on our consideration of the Project's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

August 27, 2004

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Introduction

The Fairfax County Redevelopment and Housing Authority (FCRHA) is a political subdivision of the Commonwealth of Virginia and is empowered to implement housing, community development, redevelopment, and revitalization programs within Fairfax County as well as towns, cities, and counties with which it has cooperation agreements. The Fairfax County Board of Supervisors created the Department of Housing and Community Development (HCD) to act as the development and administrative agency for the FCRHA and the Board in meeting the housing and community development needs of the County's low- and moderate-income residents.

The FCRHA presents this discussion and analysis of its Section 8 – New Construction – Group Home, Project No. VA39-H027-017 (the Project) as of and for the fiscal year ended June 30, 2004 to assist the reader in focusing on significant financial issues. The Project is a housing facility for developmentally disabled adults.

The Project's Financial Highlights For FY2004

In summary, the Project's FY2004 financial highlights included the following:

- As of June 30, 2004, total assets and liabilities were \$712,292 and \$321,634, respectively; thus total net assets were \$390,658.
- Total revenues and expenses were \$77,313 and \$76,611, respectively; thus total net assets were increased by \$702. This increase in net assets was not consistent with FY2003 during which net assets increased by \$34,702.
- Cash flows from operating activities amounted to \$25,471. After considering investing and capital and related financing activities, total cash decreased by \$41,184.

Overall, the Project's financial highlights present a strong financial position for FY2004.

Project Financial Statements

This discussion and analysis presents the Project's financial results in three financial statements – the statement of net assets, the statement of revenues, expenses, and changes in net assets, and the statement of cash flows. The FY2004 financial results are compared to those of FY2003, thus allowing the readers to ascertain the reasons for changes in expenses, revenues, or net asset balances. These financial statements were prepared using the economic resources measurement focus and the full accrual basis of accounting. Under the full accrual basis of accounting, the financial statements recognize revenues in the period they are earned and expenses in the period they are incurred.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home

(Project No. VA39-H027-017)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Summary of Net Assets

The Project's FY2004 and FY2003 statements of net assets, which are similar to balance sheets, report all financial and capital assets of the Project and are presented in a format where assets minus liabilities equals net assets, formerly known as equity. The following table reflects a condensed summary of net assets as of June 30, 2004 and 2003.

Table 1
Summary of Net Assets
June 30, 2004 and 2003

Description	2004	2003	Increase (decrease)
Current and other assets	\$ 479,598	520,782	(41,184)
Capital assets	232,694	201,064	31,630
Total assets	712,292	721,846	(9,554)
Current liabilities	14,359	13,163	1,196
Noncurrent liabilities	307,275	318,727	(11,452)
Total liabilities	321,634	331,890	(10,256)
Net assets:			
Invested in capital assets, net of related debt	(86,033)	(128,230)	42,197
Restricted	475,494	497,201	(21,707)
Unrestricted	1,197	20,985	(19,788)
Total net assets	\$ 390,658	389,956	702

In FY2004, there were no significant changes in the Statement of Net Assets.

The Project's net assets generally reflect a strong financial position for FY2004. The Project's net assets include unrestricted net assets of \$1,197 and restricted net assets of \$475,494. Restricted net assets of the Project are comprised primarily of funded reserves. Unrestricted net assets include cash on deposit with Fairfax County.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home

(Project No. VA39-H027-017)

Management's Discussion and Analysis (MD&A)

June 30, 2004

Summary of Revenues, Expenses, and Changes in Net Assets

The Project's statements of revenues, expenses, and changes in net assets (similar to income statements) include operating revenues, such as rental income, operating expenses, such as administrative, utilities, maintenance, and depreciation, and nonoperating revenues and expenses, such as grant revenue, investment income, and interest expense. The statements reflect an increase in net assets of \$702 and \$34,702, in FY2004 and FY2003 respectively. Table 2 presents a condensed summary of data from the Project's statements of revenues, expenses, and changes in net assets.

Table 2

Summary of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2004 and 2003

Description	2004	2003	Increase (decrease)
Revenues:			
Operating revenues	\$ 65,806	69,304	(3,498)
Nonoperating revenues	11,507	24,645	(13,138)
Total revenues	77,313	93,949	(16,636)
Expenses:			
Operating expenses	50,492	32,307	18,185
Nonoperating expenses	26,119	26,940	(821)
Total expenses	76,611	59,247	17,364
Increase in net assets	\$ 702	34,702	(34,000)

In FY2004 and FY2003, the Project's operating expenses totaled \$50,492 and \$32,307, respectively, most of which is comprised of administrative expenses related to auditing costs, office supplies, depreciation expense, and repairs and maintenance. The increase of \$18,185 primarily attributed to scheduled maintenance. The nonoperating expenses are interest on outstanding long-term liabilities. Nonoperating revenues in FY2004 decreased by \$13,138. This decrease is attributed to a gain on lender refinancing of \$10,500 in FY2003.

Capital Assets and Debt Administration

The Virginia Housing Development Authority (VHDA) provided permanent financing for the purchase of the land and buildings. The outstanding balance of the mortgage amounted to \$318,727 and \$329,294 at June 30, 2004 and 2003, respectively. The decrease in 2004 is a result of scheduled principal payments. During FY2002, VHDA refinanced its underlying debt associated with the mortgage loan and paid the Project approximately \$10,500 related to its future interest savings. The Project recognized the entire amount received as income in FY2003.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home

(Project No. VA39-H027-017)

Management's Discussion and Analysis (MD&A)

June 30, 2004

The Project's capital assets as of June 30, 2004 included land, buildings, and improvements and furniture and equipment that totaled \$232,694, net of accumulated depreciation of \$238,730. A breakdown of these assets is shown in table 3.

Table 3

Change in Capital Assets of Section 8 – New Construction – Group Home Project

Description	Beginning balance	Net change	Ending balance
Nondepreciable assets:			
Land	\$ 168,059	—	168,059
Depreciable capital assets:			
Buildings and improvements	259,329	41,405	300,734
Furniture and equipment	2,631	—	2,631
Accumulated depreciation on depreciable capital assets	(228,955)	(9,775)	(238,730)
Totals	\$ 201,064		232,694

The Project is a single-story structure with a central kitchen, a community room, two living areas, offices for counselors, a laundry room, and 12 single bedrooms for the residents. The buildings and improvements addition of \$41,405 relates to various improvements to the projects that were completed in FY2004. The improvements provided additional safety, privacy, and enhanced the overall aesthetics of the project. They included sidewalks, upgrades to kitchen cabinetry and appliances, and interior reconfigurations. All costs associated with these improvements were approved by VHDA and were funded entirely out of the Project's operating reserves for replacements. The installation of a new fire alarm system is planned for FY2005.

Contacting FCRHA Management

This financial report is designed to provide the citizens of Fairfax County, taxpayers, tenants, and investors and creditors with a general overview of the Project's finances and to demonstrate the Project's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director, Financial Management Division, Department of Housing and Community Development, 3700 Pender Drive, Suite 300, Fairfax, Virginia, 22030.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Statement of Net Assets

June 30, 2004

Assets

Current assets:

Cash on deposit with County of Fairfax, Virginia	\$ 4,104
Total current assets	4,104

Noncurrent assets:

Restricted assets (note 5):

Replacements reserves	32,163
Operating reserves	443,331
Total restricted assets	475,494

Capital assets (notes 4 and 5):

Depreciable:

Buildings and improvements	300,734
Equipment	2,631

Nondepreciable:

Land	168,059
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Accumulated depreciation	(238,730)
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Total capital assets, net	232,694
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Total assets	712,292
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Liabilities

Current liabilities:

Accounts payable and accrued liabilities	2,907
Mortgage payable (note 5)	11,452
Total current liabilities	14,359

Noncurrent liabilities:

Mortgage payable (note 5)	307,275
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Total long term liabilities	307,275
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Total liabilities	321,634
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Net Assets

Invested in capital assets, net of related debt	(86,033)
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Restricted net assets	475,494
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Unrestricted net assets	1,197
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Total net assets	\$ 390,658
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See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2004

Operating revenues:	
Dwelling rentals	\$ <u>65,806</u>
Total operating revenues	<u>65,806</u>
Operating expenses:	
Repairs and maintenance	33,085
Administrative expenses	7,632
Depreciation	<u>9,775</u>
Total operating expenses	<u>50,492</u>
Net operating income	<u>15,314</u>
Nonoperating revenues (expenses):	
Interest revenue	11,507
Interest expense	<u>(26,119)</u>
Total nonoperating expenses, net	<u>(14,612)</u>
Change in net assets	702
Total net assets, beginning of year	<u>389,956</u>
Total net assets, end of year	\$ <u><u>390,658</u></u>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Statement of Cash Flows

Year ended June 30, 2004

Cash flows from operating activities:	
Rental income received	\$ 65,806
Administrative expenses paid	(7,632)
Operating and maintenance expenses paid	(32,703)
Net cash provided by operating activities	<u>25,471</u>
Cash flows from investing activities:	
Purchase of capital assets	(41,405)
Interest received	11,507
Net cash used in investing activities	<u>(29,898)</u>
Cash flows from capital and related financing activities:	
Principal payments on mortgage payable	(10,567)
Interest payments on mortgage payable	(26,190)
Net cash used in capital and related financing activities	<u>(36,757)</u>
Net decrease in cash	(41,184)
Cash, beginning of year	<u>520,782</u>
Cash, end of year	<u><u>\$ 479,598</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 15,314
Depreciation	9,775
Increase in accounts payable	382
Net cash provided by operating activities	<u><u>\$ 25,471</u></u>

See accompanying notes to financial statements.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home (Project No. VA39-H027-017)

Notes to Financial Statements

June 30, 2004

(1) Narrative Profile

The Fairfax County Redevelopment and Housing Authority, Section 8 – New Construction – Group Home, Project No. VA39-H027-017 (the Project) is a housing facility for developmentally disabled adults. The goal of the Project is to increase the ability of its residents to become self-sufficient. Contained within the single-story structure is a central kitchen, a community dining room, two living room areas, offices for the counselors, a laundry room, and 12 single bedrooms for the residents. The Project is owned by the Fairfax County Redevelopment and Housing Authority (the Authority) and is operated by the Fairfax-Falls Church Community Services Board pursuant to an agreement with the Authority. The Authority is a component unit of the County of Fairfax, Virginia.

The accompanying financial statements present only the financial position and changes in financial position and cash flows of the Project, and are not intended to present fairly the financial position, changes in financial position, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (GAAP).

(2) Summary of Significant Accounting Policies

The accounting policies of the Project conform to GAAP as applicable to proprietary fund types of governmental units. The following is a summary of the Project's more significant accounting policies:

(a) *Basis of Accounting*

The activities of the Project are accounted for on an economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recognized when earned and expenses are recognized when incurred. The Project applies all applicable pronouncements of the Financial Accounting Standards Board (FASB) issued on or prior to November 30, 1989 unless these pronouncements conflict with pronouncements of the Governmental Accounting Standards Board (GASB). For purposes of external financial reporting in accordance with GAAP, the Project is following the reporting guidance set forth in GAAP for "departmental" financial statements.

(b) *Cash on Deposit with County of Fairfax, Virginia*

The Project's cash is maintained within the treasury of the County of Fairfax, Virginia (the County). To optimize investment returns, the Project's funds are invested together with all other pooled funds, all of which are fully insured or collateralized. The County allocates investment income to the Project based on its average cash balance.

(c) *Restricted Assets*

Restricted assets represent funded reserves held by the Virginia Housing Development Authority (VHDA), a state-housing-finance agency, pursuant to the regulatory agreement. All amounts are fully insured or collateralized. Such restricted assets have been included in cash for purposes of the statement of cash flows.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
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Notes to Financial Statements

June 30, 2004

(d) *Capital Assets*

Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$5,000. Capital assets are recorded at cost when purchased, or at fair market value when donated. Depreciation on buildings and equipment is calculated using the straight-line method over estimated useful lives of 27.5 years for buildings and improvements, and 5 to 10 years for furniture and equipment. Depreciation is not recorded on land.

(e) *Revenue Recognition*

Dwelling rental revenues are recorded as rentals become due. Rental payments received in advance are deferred until earned.

(f) *Operating Revenues and Expenses*

The Project's policy is to report all Project revenues and expenses as operating, with the exception of interest income and expenses.

(3) *Housing Assistance Payments Contract*

The U.S. Department of Housing and Urban Development (HUD), through VHDA, provides federal housing assistance for lower-income persons under the Section 8 program to the Project's residents. HUD provides funds to pay the difference between 30% of an eligible person's income and the HUD-established fair market rent for a housing unit, which includes rent and utilities. A Housing Assistance Payments (HAP) contract between VHDA and the Authority provides the funding received under Section 8 to operate the Project. The contract was entered into on July 27, 1979 and has a term of 40 years. During 2004, the Project received HAP contract payments amounting to \$47,878.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Notes to Financial Statements

June 30, 2004

(4) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Capital assets not being depreciated:				
Land	\$ 168,059	—	—	168,059
Capital assets being depreciated:				
Buildings and improvements	259,329	41,405	—	300,734
Furniture and equipment	2,631	—	—	2,631
Total capital assets being depreciated	261,960	41,405	—	303,365
Less accumulated depreciation for:				
Buildings and improvements	226,324	9,775	—	236,099
Furniture and equipment	2,631	—	—	2,631
Total accumulated depreciation	228,955	9,775	—	238,730
Capital assets, net	\$ 201,064			232,694

(5) Mortgage Loan Payable

VHDA provided construction and permanent financing for the Project. The outstanding mortgage loan carries an interest rate of 8.07% with final payment due June 1, 2019. The monthly principal and interest payment is \$3,063.

The land, structures, and equipment of the Project are pledged as security for the mortgage loan. The HAP contract is also pledged as security for the mortgage loan.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Notes to Financial Statements

June 30, 2004

The Project maintains certain restricted deposits and funded reserves as required by VHDA. The aggregate amount of the required principal and interest payments on the mortgage loan as of June 30, 2004 is \$551,340 and is due as follows:

	<u>Principal</u>	<u>Interest</u>
Year ending June 30:		
2005	\$ 11,452	25,304
2006	12,411	24,345
2007	13,451	23,305
2008	14,577	22,179
2009	15,798	20,958
2010-2014	101,199	82,581
2015-2019	149,839	33,941
Total	<u>\$ 318,727</u>	<u>232,613</u>

Changes in the mortgage payable for the year ended June 30, 2004 was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending balance</u>	<u>Due within one year</u>
Mortgage payable	\$ 329,294	—	10,567	318,727	11,452

(6) Related-Party Transactions

(a) Agreement with CSB

The County Board of Supervisors appoints the Commissioners of the Authority and a majority of board members of the Fairfax-Falls Church Community Services Board (CSB). Based on an agreement between the Authority and CSB, the CSB provides monthly rent subsidies on behalf of the Project's residents.

During the year ended June 30, 2004, the CSB provided \$17,928 for rent subsidies.

(b) Management Agreement with the Authority

The Project pays monthly management fees to the Authority based on 4% of gross rental collections. For the year ended June 30, 2004, the Project paid \$2,632 under the terms of the management agreement.

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Notes to Financial Statements

June 30, 2004

(7) Risk Management

The Project is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and citizens, and natural disasters. For all of these risks, the Project participates in the County's insurance program, which includes self-insurance and the purchase of certain commercial insurance policies, the costs of which are borne by the County. There were no claims settlements in excess of insurance coverage in any of the past three fiscal years. Information regarding the County's self-insurance internal service fund is available in the County's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2004.

SUPPLEMENTARY INFORMATION

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Supplementary Information

June 30, 2004

The following supplementary information is presented for the purpose of additional analysis:

Accounts and Notes Receivable (Other than from Regular Tenants)

None

Delinquent Tenant Accounts Receivable

None

Tenant Security Deposits

None

Escrows Deposits with Mortgagee

In accordance with the provisions of the regulatory documents, funds are required to be held by VHDA in escrow for future payment of property insurance, liability insurance, etc. Escrow accounts maintained by the VHDA are as follows:

Balance as of June 30, 2003, confirmed by mortgagee	\$	920
Total deposits		439
Total withdrawals		<u>(1,359)</u>
Balance as of June 30, 2004, confirmed by mortgagee	\$	<u><u>—</u></u>

Escrows for mortgage insurance are no longer required as such costs are borne by the County.

Reserve for Replacements

In accordance with the provisions of the regulatory agreement, restricted cash is held by the VHDA to be used for replacement of property with the approval of the VHDA, are as follows:

Balance as of June 30, 2003, confirmed by mortgagee	\$	83,509
Monthly deposits		1,332
Interest earned		1,932
Withdrawals		<u>(54,610)</u>
Balance as of June 30, 2004, confirmed by mortgagee	\$	<u><u>32,163</u></u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
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Supplementary Information

June 30, 2004

Operating Reserve

Operating reserves are held by the VHDA or, with VHDA approval, by the mortgagor in a restricted account and may be disbursed only as provided in the regulatory agreement with the approval of the VHDA, are as follows:

Balance as of June 30, 2003, confirmed by mortgagee	\$	412,772
Total deposits		20,985
Interest earned		9,574
Balance as of June 30, 2004, confirmed by mortgagee	\$	<u>443,331</u>

Mortgage Payable

Payables due in more than 60 days, all payables due mortgagee, and all payables due Management Agent:

<u>Creditor</u>	<u>Purpose</u>	<u>Date incurred</u>	<u>Terms</u>	<u>Original amount</u>	<u>Amount due</u>
VHDA	Mortgage	July 1978	40 years	\$ <u>437,157</u>	<u>318,727</u>

Related-Party Transactions

<u>Entity</u>	<u>Description of services</u>	<u>Amount</u>
Expenses – Fairfax County Redevelopment and Housing Authority	Management services performed during the year	\$ <u>2,632</u>
Revenues – Fairfax–Falls Church Community Services Board	Monthly tenant rents	\$ <u>17,928</u>

Schedule of Surplus Cash and Residual Receipts

Cash in treasury of County of Fairfax, Virginia	\$	4,104
Mortgage interest payable first of next month		(2,143)
Current obligations – accounts payable and accrued liabilities		<u>(764)</u>
Surplus cash and residual receipts to be deposited to operating reserve account	\$	<u>1,197</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2004

Part I	Description of Account	Acct. No.	Amount	
Rental Income 5100	Apartments or Member Carrying Charges (Coops)	5120	\$ 17,928	
	Tenant Assistance Payments	5121	47,878	
	Furniture and Equipment	5130	—	
	Stores and Commercial	5140	—	
	Garage and Parking Spaces	5170	—	
	Flexible Subsidy Income	5180	—	
	Miscellaneous (specify)	5190	—	
	Total Rent Revenue Potential at 100% Occupancy			\$ 65,806
Vacancies 5200	Apartments	5220	—	
	Furniture and Equipment	5230	—	
	Stores and Commercial	5240	—	
	Garage and Parking Spaces	5270	—	
	Miscellaneous (specify)	5290	—	
	Total Vacancies			\$ —
	Net Rental Revenue			\$ 65,806
	Elderly and Congregate Services Income - 5300			
	Total Service Income (Schedule Attached)	5300	—	—
Financial Revenue	Interest Income - Project Operations	5410	9,574	
	Income from Investments – Residual Receipts	5430	—	
	Income from Investments – Reserve for Replacement	5440	1,933	
	Income from Investments – Miscellaneous	5490	—	
	Total Financial Revenue			\$ 11,507
Other Revenue 5900	Laundry and Vending	5910	—	
	NSF and Late Charges	5920	—	
	Damages and Cleaning Fees	5930	—	
	Forfeited Tenant Security Deposits	5940	—	
	Other Revenue (specify) (gain on lender refinancing)	5990	—	
	Total Other Revenue			\$ —
	Total Revenue			\$ 77,313
Administrative Expenses 6200/6300	Advertising	6210	—	
	Other Administrative Expense	6250	—	
	Office Salaries	6310	—	
	Office Supplies	6310	—	
	Office or Model Apartment Rent	6312	—	
	Management	6320	—	
	Manager or Superintendent Salaries	6330	—	
	Manager or Superintendent Rent Free Unit	6331	—	
	Legal Expenses – Project	6340	—	
	Audit Expense – Project	6350	5,000	
	Bookkeeping Fees / Accounting Service	6351	2,632	
	Telephone and Answering Service	6360	—	
	Bad Debts	6370	—	
	Miscellaneous Administrative Expenses (specify)	6390	—	
	Total Administrative Expenses			\$ 7,632
Utilities Expense 6400	Fuel Oil / Coal	6420	—	
	Electricity (Light and Misc. Power)	6450	—	
	Water	6451	—	
	Gas	6452	—	
	Sewer	6453	—	
	Total Utilities Expense			\$ —

(Continued)

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Supplementary Information

Schedule of Revenues and Expenses

Year ended June 30, 2004

Part I	Description of Account	Acct. No.	Amount	
Operating and Maintenance Expenses 6500	Janitor and Cleaning Payroll	6510	—	
	Janitor and Cleaning Supplies	6515	—	
	Janitor and Cleaning Contract	6517	—	
	Exterminating Payroll / Contract	6519	—	
	Exterminating Supplies	6520	33	
	Garbage and Trash Removal	6525	1,210	
	Security Payroll / Contract	6530	—	
	Grounds Payroll	6535	—	
	Grounds Supplies	6536	—	
	Grounds Contract	6537	3,824	
	Repairs Payroll	6540	9,682	
	Repairs Material	6541	696	
	Repairs Contract	6542	7,590	
	Elevator Maintenance / Contract	6545	—	
	Heating / Cooling Repairs and Maintenance	6546	190	
	Swimming Pool Maintenance / Contract	6547	—	
	Snow Removal	6548	—	
	Decorating Payroll / Contract	6560	—	
	Decorating Supplies	6561	—	
	Other	6570	9,860	
	Miscellaneous Operating and Maintenance Expenses	6590	—	
	Total Operating and Maintenance Expenses			\$ 33,085
Taxes and Insurance 6700	Real Estate Taxes	6710	—	
	Payroll Taxes (FICA)	6711	—	
	Miscellaneous Taxes, Licenses, Permits and Insurance	6719	—	
	Property and Liability Insurance (Hazard)	6720	—	
	Fidelity Bond Insurance	6721	—	
	Workmen's Compensation	6722	—	
	Health Insurance and Other Employee Benefits	6723	—	
	Other Insurance (specify)	6729	—	
	Total Taxes and Insurance			\$ —
Financial Expenses 6800	Interest on Bonds Payable	6810	—	
	Interest on Mortgage Payable	6820	26,119	
	Interest on Notes Payable (Long-Term)	6830	—	
	Interest on Notes Payable (Short-Term)	6840	—	
	Mortgage Insurance Premium / Service Charge	6850	—	
	Miscellaneous Financial Expenses	6890	—	
	Total Financial Expenses			\$ 26,119
Elderly and Congregate Service Expenses 6900	Total Service Expenses (Schedule Attached)	6900		\$ —
	Total Cost of Operations Before Depreciation			\$ 66,836
	Profit (Loss) Before Depreciation			\$ 10,477
	Depreciation and Amortization	6600		\$ 9,775
	Operating Profit or (Loss)			\$ 702
Corporate or Mortgagor Entity Expenses 7100	Officer Salaries	7110		
	Legal Expenses – (Entity)	7120		
	Taxes (Federal – State – Entity)	7130-32		
	Other Expenses (Entity)	7190		
	Total Corporate Expenses			\$ —
	Net Profit or (Loss)			\$ 702

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Supplementary Information

Changes in Fixed Asset Accounts

Year ended June 30, 2004

	Assets			Accumulated depreciation			
	Balance June 30, 2003	Additions	Balance June 30, 2004	Balance June 30, 2003	Current provision	Balance June 30, 2004	Net book value
Land	\$ 168,059	—	168,059	—	—	—	168,059
Buildings and improvements	259,329	41,405	300,734	226,324	9,775	236,099	64,635
Furniture and equipment	2,631	—	2,631	2,631	—	2,631	—
	<u>\$ 430,019</u>	<u>41,405</u>	<u>471,424</u>	<u>228,955</u>	<u>9,775</u>	<u>238,730</u>	<u>232,694</u>



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Internal Controls

The Board of Supervisors
County of Fairfax, Virginia

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Section 8 – New Construction – Group Home, (Project No. VA39-H027-017) (the Project) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004. We have also tested the Project's compliance with specific requirements applicable to its nonmajor HUD-assisted program transactions and have issued our report thereon dated August 27, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we obtained an understanding of the design of relevant internal controls and determined whether they had been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements of the Project.

The management of the Project is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that HUD-assisted programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal controls, errors, fraud, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of internal controls may deteriorate.



We performed tests of controls, as required by the Virginia Housing Development Authority's Mortgagor/Grantee's Audit Guide (the Guide), to evaluate the effectiveness of the design and operation of internal controls that we considered relevant to preventing or detecting material noncompliance with specific requirements applicable to the Project's nonmajor HUD-assisted program. Our procedures were less in scope than would be necessary to render an opinion on internal controls. Accordingly, we do not express such an opinion.

Our consideration of internal controls would not necessarily disclose all matters in internal controls that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited or that noncompliance with laws and regulations that would be material to a HUD-assisted program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal controls and their operation that we consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Supervisors of Fairfax County, Virginia, the Board of Commissioners of the Fairfax County Redevelopment and Housing Authority, the Project management, and the Virginia Housing Development Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

August 27, 2004



KPMG LLP
2001 M Street, NW
Washington, DC 20036

**Independent Auditors' Report on Compliance with Specific
Requirements Applicable to Nonmajor HUD Program Transactions**

The Board of Supervisors
County of Fairfax, Virginia

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of the Fairfax County Redevelopment and Housing Authority, Section 8 – New Construction – Group Home (Project No. VA39-H027-017) (the Project) as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004.

In connection with our audit of the financial statements of the Project and with our consideration of the Project's internal controls used to administer HUD programs, as required by the Virginia Housing Development Authority's Mortgagor/Grantee's Audit Guide (the Guide), we selected certain transactions applicable to a certain nonmajor HUD-assisted program for the year ended June 30, 2004.

As required by the Guide, we performed auditing procedures to test compliance with the requirements governing mortgage status, books and records, cash activities, management compensation, rents and occupancy, subsidy payment functions, and fair housing and nondiscrimination that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Project's compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under the Guide.

This report is intended solely for the information and use of the Board of Supervisors of Fairfax County, Virginia, the Board of Commissioners of the Fairfax County Redevelopment and Housing Authority, the Project management, and the Virginia Housing Development Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

August 27, 2004



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report on Compliance and Other Matters

The Board of Supervisors
County of Fairfax, Virginia

Virginia Housing Development Authority
601 South Belvidere Street
Richmond, Virginia 23220

The Board of Commissioners
Fairfax County Redevelopment
and Housing Authority:

We have audited the financial statements of Fairfax County Redevelopment and Housing Authority, Section 8 – New Construction – Group Home, Project No. VA39-H027-017 (the Project), as of and for the year ended June 30, 2004, and have issued our report thereon dated August 27, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grant agreements applicable to the Project is the responsibility of the Project's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Project's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Supervisors of Fairfax County, Virginia, the Board of Commissioners of the Fairfax County Redevelopment and Housing Authority, the Project management, and the Virginia Housing Development Authority and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

August 27, 2004

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home

(Project No. VA39-H027-017)

Audit Compliance and Internal Control Questionnaire

June 30, 2004

Project Name: Section 8 – New Construction – Group Home

Project Number: VA39-H027-017

Fiscal Year End: June 30, 2004

Answers to these questions should be based upon a review of procedures and/or an actual test of transactions. “No” answers may be indicative of an adverse condition which must be described in the audit report unless the Mortgagor/Grantee has written permission from VHDA to deviate from the regular mortgage/grant requirements.

The following questionnaire is a required part of this report per the VHDA Mortgagor’s Audit Guide. The responses to the questions were entered by KPMG based on the results of inquiry and observations related to the item addressed. KPMG considered these items in preparing its report on internal control and this questionnaire should be read in conjunction with that report.

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP Reference</u>
1. Mortgage Status				
a. Are payments on all mortgages current?	<u>X</u>	<u> </u>	<u> </u>	<u>I-Series</u>
b. Has the Mortgagor/Grantee complied with the terms and conditions of the modification, forbearance and/or workout arrangement?	<u> </u>	<u> </u>	<u>X</u>	<u>N/A</u>
c. If the workout agreement or subsequent correspondence requires periodic deposits of surplus cash, were such deposits made within sixty days after the end of the specified period?	<u> </u>	<u> </u>	<u>X</u>	<u>N/A</u>
2. Books and Records				
a. Are a complete set of books and records maintained in a satisfactory manner?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-F-series</u>
b. Does the Mortgagor/Grantee make frequent postings (at least monthly) to the ledger accounts?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-F-series</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home

(Project No. VA39-H027-017)

Audit Compliance and Internal Control Questionnaire

June 30, 2004

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP Reference</u>
3. Cash Activities				
a. Are the cash receipts deposited in an account in the name of the development?	<u> </u>	<u>X as approved by VHDA</u>	<u> </u>	<u>GB-I-series</u>
b. Are all account balances federally insured?	<u>X</u>	<u> </u>	<u> </u>	<u>GB-I-series</u>
c. If a centralized account is used, is it limited to disbursements?	<u> </u>	<u>X as approved by VHDA</u>	<u> </u>	<u>GB-I-series</u>
d. Are security deposits kept in an account separate and apart from all other funds of the development?	<u> </u>	<u> </u>	<u>X</u>	<u>GB-I-series</u>
e. Does the balance in the security deposit account equal or exceed the liability? Note: The liability should include the accrued interest payable.	<u> </u>	<u> </u>	<u>X</u>	<u>GB-I-series</u>
f. Does the owner and/or the Management Agent have a fidelity bond in an amount at least equal to potential collections for two months (one month on Section 8 developments) which provides coverage for all employees handling cash?	<u>X</u>	<u> </u>	<u> </u>	<u>PF-II-7</u>
g. Did cash disbursements exclude payments for items listed below:				
• Legal expenses incurred in the sale of partnership interest?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
• The fee for the preparation of a partner's, shareholder's or individual's federal, state, or local income tax returns?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>
• Expenses for advice to an owner on tax consequences of foreclosure?	<u> </u>	<u> </u>	<u>X</u>	<u>None</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home

(Project No. VA39-H027-017)

Audit Compliance and Internal Control Questionnaire

June 30, 2004

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP Reference</u>
• Reimbursement to the owners or affiliates for prior advances, capital expenditures and/or development acquisition costs while the mortgage/grant is in default, under modification, forbearance, or provisional workout arrangements?	<u> </u>	<u> </u>	<u> X </u>	<u>None</u>
• Were all disbursements from the operating account(s) made exclusively for operations or obligations of the development?	<u> X </u>	<u> </u>	<u> </u>	<u>M-Series</u>
h. Were distributions made to, or on behalf of, the owners limited to those authorized by the Regulatory Agreement or the distributions in accordance with prior written approval of VHDA, while the development was in a “surplus cash” position?	<u> </u>	<u> </u>	<u> X </u>	<u>None</u>
Note: Developments operating under a modification or forbearance agreement and/or a provisional workout arrangement are not in a “surplus cash” position for the purposes of distributions.	<u> </u>	<u> </u>	<u> X </u>	<u>None</u>
Note: The use of rental proceeds to pay for costs included in the Mortgagor/Grantee’s cost certification are unauthorized distributions of development income.	<u> </u>	<u> </u>	<u> X </u>	<u>None</u>
i. Were residual receipts deposited with the mortgagee within thirty days after mortgagee request of such deposit?	<u> </u>	<u> </u>	<u> X </u>	<u>N/A</u>
j. Were excess rental collections in Section 236 developments remitted to HUD each month?	<u> </u>	<u> </u>	<u> X </u>	<u>N/A</u>
k. Does the Mortgagor/Grantee have a formal rent collection policy?	<u> X </u>	<u> </u>	<u> </u>	<u>GB-I-series</u>
l. Is the collection policy uniformly enforced?	<u> X </u>	<u> </u>	<u> </u>	<u>GB-I-series</u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home

(Project No. VA39-H027-017)

Audit Compliance and Internal Control Questionnaire

June 30, 2004

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP Reference</u>
m. Do tenant accounts receivable consist exclusively of amounts due from other than employees?	<u> </u>	<u> </u>	<u> X </u>	<u> N/A </u>
n. Is there a formal procedure for write-off of bad debts?	<u> X </u>	<u> </u>	<u> </u>	<u> L-Series </u>
o. Have write-offs of tenants' accounts been less than 1% of the gross rent?	<u> X </u>	<u> </u>	<u> </u>	<u> L-Series </u>
p. Are accounts receivable other than tenants' receivables composed exclusively of amounts due from unrelated persons or firms?	<u> </u>	<u> </u>	<u> X </u>	<u> None </u>
q. Were there indications that payments for services, supplies, or materials were not substantially in excess of amounts normally paid for such services in order to assure the most advantageous terms to the development?	<u> X </u>	<u> </u>	<u> </u>	<u> M-series </u>
r. Were accounts payable remitted in a timely manner so as to not incur late charges/penalties?	<u> X </u>	<u> </u>	<u> </u>	<u> GB-I-series </u>
4. <i>Management Compensation</i>				
a. Was compensation to the Management Agent limited to the amounts prescribed in the Management Agreement?	<u> X </u>	<u> </u>	<u> </u>	<u> M-1 </u>
b. Did agent not charge development for expenses which the Management Agreement requires agent to pay?	<u> X </u>	<u> </u>	<u> </u>	<u> M-1 </u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home

(Project No. VA39-H027-017)

Audit Compliance and Internal Control Questionnaire

June 30, 2004

<u>Examination status</u>	<u>Yes</u>	<u>No</u>	<u>N/A</u>	<u>WP Reference</u>
5. Rents and Occupancy				
a. On conventional developments, is the gross potential rental income from apartments equal to or less than that shown on the most recent Rent Schedule, VHDA Form No. MD: 540, Rent/Utility Allowance Report?	<u> </u>	<u> </u>	<u> X </u>	<u> N/A </u>
b. On subsidized developments, are dwelling unit rents the same as those approved by VHDA on the most recent Rent Schedule, VHDA Form No. MD: 540, Rent/Utility Allowance Report?	<u> X </u>	<u> </u>	<u> </u>	<u> A-21 </u>
6. VHDA/HUD Subsidy Payments (Section 8/RAP Developments Only)				
a. Were the amounts requested from VHDA/HUD adequately supported by the accounting records?	<u> X </u>	<u> </u>	<u> </u>	<u> L-Series </u>
b. Were subsidy receipts recorded in the proper accounts?	<u> X </u>	<u> </u>	<u> </u>	<u> L-Series </u>
c. Were utility allowance payments paid to residents within thirty days of receipt from VHDA and in an amount equal to the corresponding utility allowance subsidy amounts received?	<u> </u>	<u> </u>	<u> X </u>	<u> None </u>
d. Were all uncashed utility allowance payments refunded to VHDA (via a Part II adjustment to the monthly Housing Assistance Payment) within six months of initial issuance by VHDA?	<u> </u>	<u> </u>	<u> X </u>	<u> N/A </u>

FAIRFAX COUNTY REDEVELOPMENT AND HOUSING AUTHORITY

Section 8 – New Construction – Group Home
(Project No. VA39-H027-017)

Certificate of Assistant Secretary

June 30, 2004

I hereby certify that I have examined the accompanying financial statements, supplementary information, and management's discussion and analysis and, to the best of my knowledge and belief, they are complete and accurate.

Mary A. Stevens
Assistant Secretary
Fairfax County Redevelopment and
Housing Authority
Employer Identification Number 52-1464034